

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION SUBCOMMITTEE ON ENERGY AND TELECOMMUNICATIONS

Call to Order: By **VICE CHAIRMAN ROYAL JOHNSON**, on January 31, 2001 at 4:30 P.M., in Room 102 Capitol.

ROLL CALL

Members Present:

Sen. Mack Cole, Chairman (R)
Sen. Royal Johnson, Vice Chairman (R)
Sen. Don Ryan (D)
Sen. Tom Zook (R)

Members Excused: Sen. Steve Doherty (D)
Sen. Alvin Ellis Jr. (R)
Sen. Mike Halligan (D)
Sen. Bea McCarthy (D)
Sen. Walter McNutt (R)
Sen. Corey Stapleton (R)
Sen. Mike Taylor (R)

Members Absent: None.

Staff Present: Todd Everts, Legislative Branch
Misti Pilster, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Discussion on SB 243

Discussion:

SENATOR ROYAL JOHNSON declared that the subcommittee had stopped on number 13 of PPL's **amendment SB024305.ate** at the previous meeting. **Todd Everts** cited the differences between those amendments and **amendment SB024306.ate**. If the **SB024306.ate amendments** were passed, the following amendments would be affected: 12-16 of the **SB024305.ate amendments** as well as Montana Power Company's (MPC) **amendment SB024304.ate**. The following

amendments of the **amendment SB024304.ate** were obsolete due to others being passed: 1-3, 5-8, 10-14, and 27.

Pat Corcoran, MPC, noted that the **SB024306.ate amendments** adjusted section 9. A portfolio approach was maintained as well as a competitive bid process. The competitive bid process would be fired at a minimum, and a 400 megawatt block of power would be locked up and secured. That would be submitted to the Public Service Commission (PSC) for approval. Bids would be taken for different megawatt usage and term length. This would ensure a minimum 400 megawatt contract by March 1, 2002. In another area, the PSC would be the entity to review the results of the competitive bid process. They would have seven calendar days to approve or reject contracts.

Ken Morrison, PPL, professed that there was no time frame because an agreement could not be made at that point in time. He also mentioned criteria and factors which should be considered for success, as well as review by the PSC.

Mr. Corcoran said that the primary factors associated with the competitive bid process needed to be considered. The competitive bid process should be started before September 1, 2001.

SENATOR JOHNSON had been hearing that action needed to be taken immediately, although September 1, 2001 didn't seem to be immediate. **Mr. Corcoran** expatiated that the intent of MPC as the default supplier, was to go out and start the process as soon as possible. The competitive bid process should be started within the next few months.

SENATOR JOHNSON wondered how the September 1 date would fit into PPL's schedule. **Mr. Morrison** didn't object to an earlier starting date. The bid process would have to be started by September 1, 2001 and completed by March 1, 2002.

Mr. Corcoran wished to clarify September 1. As the default supplier, they believe there will be a window of opportunity moving from winter to summer to pursue competitive bids, as well as moving from summer to winter in the fall of this year. September 1 would insure the opportunity to pursue competitive bids in the second window. While it is the intent to start the process quickly, there may be other competitive bids. If the date is moved up, the opportunity to offer competitive bids under a date assumption is locked in. This order would require the 400 megawatt block to be approved by the PSC by March 1, 2002. The dates basically establish the boundaries, while allowing some flexibility.

SENATOR JOHNSON questioned what retail customers could be told about the cost of electricity when 2002 rolls around. **Mr. Corcoran** indicated as the default supplier, they would work to pursue bids to ensure the total amount of supply for the customers starting July 1, 2002. **SENATOR JOHNSON** thought that by March 1, 2002, they would be able to say how much money a five year contract would cost. **Mr. Corcoran** stated that was incorrect. The other pieces of the competitive bid process above the 400 megawatt block would be completed on or before July 1, 2002. **SENATOR JOHNSON** asked if they would be able to tell customers on July 1, 2002 what the cost of electricity would be for five years. **Mr. Corcoran** said on July 1, 2002 they would state the portfolio price of electricity for the next year. The process still contemplates a portfolio approach. Prices could change yearly and that would give flexibility in the bid process to secure shorter term contracts at the top part of the portfolio. Through the cost tracking mechanism, rate changes would occur annually.

SENATOR MACK COLE wondered if there would be limits on the variations on the annual basis. **Mr. Corcoran** exclaimed that the tracking mechanism would provide for those adjustments. The way the contracts would be reflected would result in the price the consumer saved. They hope the portfolio approach would provide the maximum opportunity to ensure the lowest price in each annual tracking adjustment.

SENATOR JOHNSON was curious if customers would pay 30 cents instead of 2.25 cents for power in the first year. **Mr. Corcoran** replied that through the competitive bid process, they would pursue contracts for a variety of terms. The 400 megawatt is just a minimum requirement.

{Tape : 1; Side : B}

SENATOR JOHNSON wanted to know if PPL was comfortable with the situation. **Mr. Morrison** replied that they were comfortable with the idea that at least 400 megawatt wattage would be contracted for a reasonable period of five years. About 50% of that power would be needed during peak periods.

SENATOR TOM ZOOK assumed that a lower rate could be gotten when dealing with an extended period of time, such as five years. **Mr. Corcoran** believed that was correct.

SENATOR JOHNSON desired to know what was meant by administrative, general, and costs of any energy risk management. **Mr. Corcoran** responded that, as the default supplier, MPC will have two or

three people dedicated to the default supply function. They will pursue the competitive bids, manage the daily activities of the portfolio and supply, and make sure power is delivered to consumers. **SENATOR JOHNSON** asked if there were two or three people who ran the contract for 2.25 cents. **Mr. Corcoran** thought there were three equivalents. **SENATOR JOHNSON** wanted to know if they would need three more with the same amount. **Mr. Corcoran** noted that the current costs were apparently in their transmission and distribution (T&D) rates. They would be moved over from being a T&D charge to a default supply cost. The costs are those of managing default supply activities. **SENATOR JOHNSON** wondered how the costs were paid. **Mr. Corcoran** replied that they were currently included in T&D costs. **SENATOR JOHNSON** inquired as to the change on the generation portion of a power bill. **Mr. Corcoran** expatiated .007 cents for the total bill. For a total current bill, .007 cents per kilowatt hour would move out of T&D and into supply. A typical residential customer uses 750 kilowatt hours so that would be about 5 cents. **SENATOR JOHNSON** implored whether .07 cents or .007 cents of the total cost had been moved. **Mr. Corcoran** stated .007 cents from the bottom of the bill called distribution to the top of the bill called generation.

Mr. Corcoran elaborated that starting July 1, 2002, the zero to 400 block would go away and would be replaced by the average kilowatt hour priced in the portfolio. **SENATOR JOHNSON** was confused by the prices of the contracts. **Mr. Corcoran** exhorted that the contract cost they buy from PPL is 2.25 cents. The overall costs for a residential customer would be in the range of 2.6 to 2.8 cents.

SENATOR JOHNSON wondered about energy risk management. **Mr. Corcoran** purported that in the energy risk management activity, there are financial risk management instruments in the energy supply market such as hedges which can be entered into to contract for power at an index. If the default supplier was forced into a position by the marketplace that would include a component of power at the index, it would be a good idea to look at a hedge in an attempt to fix the price. To clarify, in moving up the hedge, the cost of the hedge would be measured against the alternative price of the index. **SENATOR JOHNSON** questioned whether it might cost customers more having 400 megawatts locked in until 2007. **Mr. Corcoran** responded that under that assumption, it was correct.

SENATOR JOHNSON asked if a longer contract for six and a half years would cost less for someone in the bidding process. **Terry Holzer** thought all the pricing mechanisms would need to be looked

at. Perhaps a short term contract in the next year or two might be better priced than a long term contract. The sponsor was trying to protect customers for prices that may further increase.

Mr. Corcoran noted that they intend to go out and pursue five year contracts and assess the price of that bid versus a shorter term bid. Based on the differences from that market information, the best decision for consumers in the long run could be determined.

SENATOR ZOOK understood that 65% of the power sources in the northwest comes from hydroelectric dams and 50% of that was lost because of drought and lack of mountain snow pack.

{Tape : 2; Side : A}

Mr. Corcoran indicated the important aspect of having more water was the increase in supply at the dams, which would help decrease prices. In addition, the purpose of the competitive marketplace is to get all of the power suppliers to interact. Depending on their particular costs, the cost has nothing to do with it because the market price will set the price of power and the more competition there is, the lower the price should become.

ADJOURNMENT

Adjournment: 5:30 P.M.

SEN. MACK COLE, Chairman

MISTI PILSTER, Secretary

MC/MP

EXHIBIT (ens25aad)